

BILL # HCR 2037

TITLE: business personal property taxes; exemption

SPONSOR: Miranda B.

STATUS: As Introduced

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

Under current law, business (Class 1) and agricultural (Class 2) personal property is exempt from taxation up to a maximum amount of \$50,000 in full cash value per taxpayer. The amount is adjusted annually for inflation and is currently \$61,142. If approved by voters in the next general election, this bill would increase the maximum amount of this exemption to \$150,000 and also remove the constitutional inflation-indexing provision.

Estimated Impact

Based on property valuation data furnished by the Department of Revenue (DOR), HCR 2037 is estimated to have a General Fund cost of \$3.0 million beginning in FY 2010. The bill would reduce statewide net assessed valuation (NAV), which would result in an increase of the state's K-12 education formula cost. However, the fiscal impact resulting from the NAV loss could be offset by reducing the cost of automatic school tax rate reductions under the state's truth-in-taxation (TNT) provisions. The net General Fund cost if the TNT savings are incorporated would be an estimated \$0.5 million beginning in FY 2010.

Analysis

According to DOR, the bill is estimated to result in a NAV loss of \$(91.3) million relative to current law. Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage (39% in FY 2010) of residential school property taxes through the Department of Education's Homeowner's Rebate program. By reducing NAV by \$(91.3) million in tax year 2009, the bill will result in a direct increase of the state share of K-12 funding by \$3.0 million in FY 2010. This estimate includes the net impact on both Basic State Aid and the Homeowner's Rebate.

The NAV reduction under HCR 2037 will also generate savings in the cost of the state's Truth in Taxation (TNT) program. TNT reduces the qualifying tax rate (QTR) to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2010, the school tax rate is expected to be reduced by 9.2¢ under existing statutes. However, the lower NAV under HCR 2037 would result in the tax rate reduction being 0.4¢ less than under current law or 8.8¢, which constitutes a TNT saving of \$(2.5) million.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund, beginning in FY 2010, will be about \$3.0 million. However, if the QTR is adjusted to account for TNT, the bill's General Fund cost would be limited to \$0.5 million.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

2/2/07